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BEFORE THE  
U.S. DEPARTMENT OF TRANSPORTATION  
WASHINGTON, DC

DEPT. OF TRANSPORTATION  
DOCKETS

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In the Matter of )  
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COMPUTER RESERVATION )  
SYSTEM (CRS) REGULATIONS )  
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Supplemental Advance Notice of )  
Proposed Rulemaking )  
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Docket Nos. OST-97-2881,  
OST-97-3014, and OST-98-4775

*OST-97-2881-145*  
*OST-97-3014-14*  
*OST-98-4775-60*

**COMMENTS OF**

**THE ASSOCIATION OF ASIA PACIFIC AIRLINES**

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Dated: 22 September 2000

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**COMMENTS OF**  
**THE ASSOCIATION OF ASIA PACIFIC AIRLINES**

The Association of Asia Pacific Airlines (AAPA) files these comments on the Supplemental Advance Notice of Proposed Rulemaking regarding Computer Reservations System (CRS) Regulations on behalf of its membership with the exception of Japan Airlines, which has elected to abstain from this filing.

**I. THE ASSOCIATION OF ASIA PACIFIC AIRLINES**

The AAPA is the trade association of 18 major airlines based in the Asia Pacific region. The association was founded in 1966 to provide a forum for examining international air transport issues and for developing action plans on matters of mutual concern. Its members include Air New Zealand, All Nippon Airways, Ansett Australia, Asiana Airlines, Cathay Pacific Airways, China Airlines, Dragonair, EVA Airways, Garuda Indonesia, Japan Airlines, Korean Air, Malaysia Airlines, Philippine Airlines, Qantas Airways, Royal Brunei Airlines, Singapore Airlines, Thai Airways International and Vietnam Airlines.

**II. BACKGROUND**

The AAPA provided detailed comments to the Department of Transportation (DOT) in the matter of CRS regulation and we direct the Department to these comments (Notice 97-9, Docket No. OST-97-2881, 8 December 1997), as it seeks to move forward with

the rulemaking. The AAPA also supported the Department's proposal (Notice 99-3, Docket OST-99-5132, 12 March 1999) to extend the rules' expiration date until 31 March 2000 in order to complete its review of all CRS regulations.

### **III. UPDATED COMMENTS ON CURRENT DOT CRS RULES**

The distribution cost is so high for every airline that the whole industry is looking for alternatives such as Internet distribution to cut down the distribution cost. Before the Internet becomes a dominant distribution channel, we believe there is still a need to impose tight control on CRS distribution across several different aspects including charging mechanism, airline participation contracts, data ownership, and distribution methods. Meanwhile, as Internet distribution is becoming the next generation in airline distribution, rules should be applied to this new distribution tool separately so as to maintain fair competition and pricing.

In addition to our responses to DOT on 8 December 1997, with reference to the specific issues raised by DOT in its Advance Notice of Proposed Rulemaking, the AAPA provides the following additional comments:

#### **A. Issue 1**

We believe that the CRS rules should be maintained to promote fair competition for CRSs and airline business conducted through the CRSs. The reduction or even the complete disappearance of airline CRS ownership interests should neither remove nor diminish the need to ensure fair access to accurate and complete information by consumers and travel agents via the CRS. In light of rapid technology changes, rules should be reviewed and revised annually.

#### **B. Issues 2 and 7**

In summary, the Rules have served well to regulate information display as well as airlines' and subscribers' participation in airline-owned CRSs.

To date, many CRSs are extending their reach to the consumers via the Internet. Airlines' consent is not sought if they desire to offer their products through this channel.

CRSs should communicate to airlines on their website product features and seek airlines' approval. There are two purposes for this: first, to prevent Internet abuses such as cross-border tickets and second, to allow airlines to evaluate if they should upgrade their CRS participation to enhance their distribution in the Internet world e.g. Internet seatmap.

A separate agreement or an addendum to the existing Participating Carrier Agreement is required for Internet distribution of airlines products for bookings via CRSs' web sites.

Airlines should be able to refuse participating in the Internet sites of the CRSs. Airlines should retain the right to determine how they want to distribute their product.

The Internet booking fee is expected to be in line with the cost of operating CRSs. Should a lower cost be incurred on Internet distribution for CRS, it follows that the Internet booking fee chargeable to airlines needs to be lowered.

CRSs should display airlines' products for participating carriers contracted to distribute via the CRS website in an accurate, clear and fair manner and the display logic should be made known to airlines. To prevent possible fare abuses and excessive passive segments, the Internet website should be designed in such a way that booking and ticketing are merged into one transaction, under one same Passenger Name Record (PNR), with the same passenger name and fare class.

Furthermore, airlines currently do not have information from Teletype (TTY) or the Booking Information Data Tape (BIDT) that CRSs have used the Internet to distribute their products. CRS Internet booking identification should be clearly communicated to the airlines during booking and subsequently, during modification. Point-of-sale information should be made available to enable airlines to determine the source and type of bookings and to make the decision to accept or cancel the bookings. All supporting data of CRS invoices (i.e. BIDT) should also include details for Internet bookings.

### **C. Issue 3**

Although airlines should be involved in the revision process of the Participating Carrier Agreement especially in areas such as annual fee increase, charging mechanism and refund policy, this is not the case currently. Airlines continue to accept the CRS fee increase without any recourse or clear justification from the CRSs. There is no recourse simply because airlines still rely heavily on the CRSs for distribution and this reliance will not disappear completely even with emerging alternative distribution channels.

Furthermore, participating airlines should have the option of not using a particular CRS product due to commercial reason (i.e. higher charges than other CRSs). This will drive a healthy competition among the CRSs.

### **D. Issue 9**

CRSs are currently using airlines' booking data in their systems and offering them as a product to be sold back to participating airlines at steep prices and generating a huge profit. Firstly, we question the true ownership of these data. Participating airlines are co-owners of these data and have the right of not disclosing such data to the other airlines. Due to the disclosure of such data to competitors now, airlines have no choice but to "follow the bandwagon" in order to prevent losing any competitive advantages

and purchase the data in the form of tapes (MIDTs) at high prices. CRSs continue to make huge profits and airlines continue to pay for huge distribution support costs.

#### **E. Issue 11**

Independent third parties such as universities or experienced consultants should conduct unbiased studies on the pricing structure of CRS fees and product pricing in standard Participating Carrier Agreements. The results should serve as a guideline for the Department to assess airlines' complaints and to determine if any Agreement is favoring CRSs more than the airlines. The Department should also review the rules used by the CRSs to charge the airlines to determine if they have penalized the airlines unfairly.

For example, CRSs charging on a net segment basis should automatically credit the booking fees to airlines once the bookings are removed on the secondary PNR and not pending action by the travel agents to move the segment to the History portion of the primary PNR. This relates to the credit for status codes (HX/NO) segments. When Transaction Based Pricing (TBP) is used, we found that the distribution cost in North America is significantly higher than any other market.

Airlines should have the right to determine who and where to distribute. Hence, CRSs should offer some mechanism for airlines to control the Point of Sales (POS).

#### **F. Issue 12**

Providing incentives to travel agents is one of the tactics that CRSs use to encourage bookings. CRSs should not be offering incentives tied to all segments, in any market, including passive segments that bring little or no value to the airlines. Otherwise, this leads to abusive practice by the travel agents and airlines are penalized by the CRSs (through higher CRS fees) for CRSs' encouraging volume production from their subscribers. CRSs should only pay incentives to their subscribers based on bookings that result in ticket issuance on the airlines.

Due to lack of transparency in this area, airlines are not fully aware of the details of CRSs' incentive schemes. The onus should not be on the airlines to prove abuse by the travel agents to claim refund from the CRSs. As a service provider, the CRS should be responsible to ensure sound practice by its subscribers and automatically credit the airlines whenever abuse is detected. Airlines should not be compelled to invest in CRS-related systems (e.g. passive segment rejection system, BDT analytical tool, etc.) to stem abuse in CRS transactions (passive without active, "abusive" creation of passive segments, test bookings, etc.). CRSs should also provide simple tools, at no cost, for airlines to prohibit selling by such "abusive" agents so that the quality of the airlines' inventory is preserved for the benefits of the genuine consumers.

On the other hand, there should be a set code of conduct to be observed by the subscribers. Their current booking practices are unregulated and in some cases this leads to abuse of the CRSs and the airlines have to bear the brunt of such abuses by paying additional fees. This unnecessary additional airline cost of distributing through the CRSs could eventually lead to higher fares for the consumers.

#### **G. Additional Comments**

CRSs should only bill the airlines for transactions that bring value to the airlines (i.e. transactions which result in ticket issuance). Items of lesser value to the airlines (e.g. passive ticketing, waitlist) should be billed at a lower level and items of no value (e.g. duplicate segments, no show, book and cancel) should not be billed to the airlines.

Ticketed passive is a fairer pricing provided there are no other confirmed bookings found in the system that could be used for driving the tickets. Apart from taking up the role of enforcing travel agents to use the same system for booking and ticketing, CRSs should perform some duplicate checking to avoid double-charging the airlines.

For those CRSs not charging by ticketed passive segment, they should prohibit non-IATA travel agents from using passive segment. Furthermore, CRS fees for segments from voided tickets should likewise be refunded to the airlines.

#### **IV. COMMENTS ON RULES FOR INTERNET DISTRIBUTION OF AIRLINE PRODUCT**

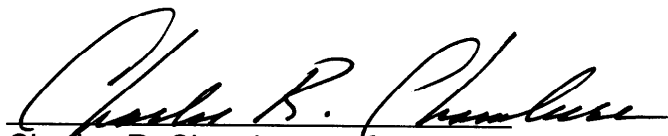
It is premature to start regulating airline distribution practices via the Internet at this stage given that the Internet distribution landscape is still evolving. While there are some common characteristics that can be distilled from the various modes of Internet distribution available today, the business model for Internet distribution is still undergoing rapid changes and we have not witnessed its steady state.

Additionally, it is difficult to contemplate how Internet distribution can be effectively regulated, even if we want to, especially when the Internet epitomizes a medium of distribution, sales or servicing that accords both the buyer and supplier great flexibility and transcends geographical barriers.

If Internet distribution of airline products is ever subject to regulation, airlines' own web sites or airlines' own reservations systems offered through the Internet should be exempted as these systems are simply the airlines' own distribution sites, just like their telephone reservation lines and their brick-and-mortar ticket offices. Users going into a ticket office, calling into a reservation center, or visiting an airline's website have no illusion that they are visiting a comprehensive travel location and do not expect to be able to access comprehensive information on anything other than the products offered by the owner of the location. They know what they can get, including an airline's

various products such as code share flights with its alliance partners, its frequent flyer programs, and the interline possibilities, among others. Therefore, any regulatory action would impede the airlines from competing in the marketplace and interfere with the airlines' commercial operations. The airlines' usage of the Internet should be considered as the airlines' own distribution network.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Charles R. Chambers". The signature is fluid and cursive, with a horizontal line drawn underneath it.

Charles R. Chambers  
Global Aviation Associates, Ltd.

for  
Richard T. Stirland  
Director General  
Association of Asia Pacific Airlines